

# **Report of the auditor-general to the Free State Legislature and the council on the Maluti-A-Phofung Local Municipality**

## **Report on the consolidated and separate financial statements**

### **Introduction**

1. I was engaged to audit the consolidated and separate financial statements of the Maluti-A-Phofung Local Municipality and its entity set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2015, the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the consolidated and separate financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for disclaimer of opinion**

#### **Property, plant and equipment**

4. The parent municipality did not review the residual values and useful lives and perform an impairment of property, plant and equipment at each reporting date in accordance with SA

Standards of GRAP, GRAP 17, *Property, plant and equipment* (GRAP 17) and GRAP 26, *Impairment of cash-generated assets*. I was not able to determine the correct net carrying amount of property, plant and equipment as it was impracticable to do so. Additionally, there was a resultant impact on the depreciation, deficit for the period and the accumulated surplus. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment as the parent municipality did not provide me with a complete fixed asset register, documentation to support the cost prices of assets and evidence that all the requirements outlined in GRAP 17 were complied with. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustment relating to property, plant and equipment stated at R2 999 060 142 (2014: R3 187 320 279) and R2 993 040 188 (2014: R3 179 466 373) in note 10 to the consolidated and separate financial statements, respectively, was necessary.

## **Receivables from exchange transactions**

5. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions as the parent municipality did not establish internal controls for the monthly billing of all consumers. I could not confirm by alternative means that all consumer receivables had been billed. Consequently, I was unable to determine whether any adjustments relating to the gross balance of receivables from exchange transactions stated at R717 719 926 (2014: R472 572 581) and R736 474 500 (2014: R518 729 814) in note 4 to the consolidated and separate financial statements, respectively, were necessary.

## **Commitments**

6. I was unable to obtain sufficient appropriate audit evidence for commitments due to an inadequate contract management system and contracts that could not be submitted by the parent municipality. I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments relating to capital commitments stated at R605 337 768 (2014: R93 665 357) and R580 579 740 (2014: R98 284 966) in note 46 to the consolidated and separate financial statements, respectively, were necessary.

## **Repairs and maintenance**

7. I was unable to obtain sufficient appropriate audit evidence regarding repairs and maintenance due to inadequate record management by the parent municipality. I was unable to confirm repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustments relating to repairs and maintenance stated at R451 755 400 and R446 129 234 in note 38 to the consolidated and separate financial statements, respectively, were necessary.

## **Service charges**

8. I was unable to obtain sufficient appropriate audit evidence for service charges as the parent municipality did not establish internal controls for the monthly billing of all consumers. I could not confirm service charges income by alternative means. Consequently, I was unable to determine whether any adjustments relating to service charges income stated at R395 516 256 (2014: R202 475 504) and

R395 516 256 (2014: R202 475 504) in note 24 to the consolidated and separate financial statements, respectively, were necessary.

## **Community project expenditure**

9. I was unable to obtain sufficient appropriate audit evidence for community project expenditure due to inadequate record management by the parent municipality. I could not confirm community project expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to community project expenditure stated at R249 764 845 (2014: R75 223 581) and R249 764 845 (2014: R75 223 581) in note 33 to the consolidated and separate financial statements, respectively, were necessary.

## **Surplus on distribution of non-cash assets to owners**

10. I was unable to obtain sufficient appropriate audit evidence from the parent municipality for the restatement of the corresponding figure for surplus on distribution of non-cash assets to owners in the consolidated and separate financial statements. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustments relating to the surplus on distribution of non-cash assets to owners corresponding figure, stated at R71 131 134 and R71 131 134 in the statement of financial performance of the economic entity and the controlling entity, respectively, were necessary.

## **Investment property**

11. I was unable to obtain sufficient appropriate audit evidence from the parent municipality for investment property due to an incomplete investment property register. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments relating to investment property stated at R42 163 277 (2014: R42 519 902) and R42 163 277 (2014: R42 519 902) in note 9 to the consolidated and separate financial statements, respectively, were necessary.

## **Distribution losses**

12. During 2014, the parent municipality did not calculate and disclose the value of water distribution losses in accordance with section 125(2)(d)(i) of the MFMA. I was not able to determine the full extent of the misstatement of water distribution losses as it was impracticable to do so. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2014 had been modified accordingly. My opinion on the current period's consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figure, as disclosed in note 39 to the consolidated and separate financial statements respectively.

## **Payables from exchange transactions**

13. During 2014, I was unable to obtain sufficient appropriate audit evidence from the parent municipality for payables from exchange transactions. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to

determine whether any adjustments to the payables from exchange transactions, stated at R683 128 516 and R567 152 215 in note 15 to the consolidated and separate financial statements, respectively, were necessary. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Employee-related cost**

14. During 2014, I was unable to obtain sufficient appropriate audit evidence from the parent municipality for employee-related cost. I was unable to confirm the employee-related cost by alternative means. Consequently, I had been unable to determine whether any adjustments relating to the employee-related cost, stated at R305 659 450 and R230 120 983 in note 31 to the consolidated and separate financial statements, respectively, were necessary. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **General expenses**

15. During 2014, I was unable to obtain sufficient appropriate audit evidence from the parent municipality for general expenses and to confirm the general expenses by alternative means. Consequently, I was unable to determine whether any adjustments to general expenses, stated at R149 330 745 and R136 622 852 in note 42 to the consolidated and separate financial statements, respectively, were necessary. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Aggregation of immaterial uncorrected misstatements**

16. I was unable to obtain sufficient appropriate audit evidence from the parent municipality regarding the following items included in the statement of financial performance which had a cumulative effect on the consolidated and separate financial statements:
  - Property rates of R21 463 400, as included in the disclosed balance of R109 184 455 and R120 001 428, respectively.
  - Employee-related costs of R25 254 370, as included in the disclosed balance of R336 338 869 and R255 372 419, respectively.

I was unable to confirm these items by alternative means. Consequently, I was unable to determine whether any adjustment to these items was necessary.

## **Disclaimer of opinion**

17. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the consolidated and separate financial statements.

## **Emphasis of matters**

18. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Significant uncertainties**

19. With reference to note 47 to the consolidated and separate financial statements, the parent municipality is involved in a legal dispute over the validity of an electricity maintenance contract. The ultimate outcome of the matter cannot presently be determined and a contingency of R2 003 000 000 for royalties is disclosed in the consolidated and separate financial statements. No provision for any liability that may result has been made in the consolidated and separate financial statements.

### **Restatement of corresponding figures**

20. As disclosed in note 49 to the consolidated and separate financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2014-15 in the annual financial statements of the parent municipality and the municipal entity at, and for the year ended, 30 June 2014.

### **Going concern**

21. Note 51 to the consolidated and separate financial statements indicates that the group incurred a deficit of R445 755 272 (2014: R261 432 679) during the year ended 30 June 2015. This condition, along with other matters as set forth in note 51 and the current liabilities which exceed the current assets by R592 617 050 as per the statement of financial position, indicates the existence of a material uncertainty that may cast significant doubt on the group's ability to operate as a going concern.

### **Irregular expenditure**

22. As disclosed in note 55 to the consolidated and separate financial statements, irregular expenditure to the amount of R31 934 880 (2014: R66 402 405) and R30 761 895 (2014: R63 574 485), respectively, was incurred, which was mainly due to non-compliance with the supply chain management requirements in respect of procurement transactions.

## **Material impairments and losses**

23. As disclosed in note 4 to the consolidated and separate financial statements, a provision for impairment of debtors amounting to R450 996 828 (2014: R431 565 585) and R422 307 227 (2014: R411 350 490), respectively, has been made with regard to irrecoverable receivables from exchange transactions. In addition, as disclosed in note 6 to the consolidated and separate financial statements, a provision for impairment of debtors amounting to R126 771 537 (2014: R213 968 988) and R126 771 537 (2014: R213 968 988), respectively, has been made with regard to irrecoverable receivables from non-exchange transactions.
24. As disclosed in note 39 to the consolidated and separate financial statements, electricity losses of 69% and water losses of 40% were incurred as a result of distribution losses incurred during the year.

## **Additional matters**

25. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited disclosure notes**

26. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion thereon.

### **Unaudited supplementary schedules**

27. The supplementary information set out on pages xx to xx does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

28. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

29. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the municipality and the entity for the year ended 30 June 2015:

- Parent municipality: Key performance area (KPA) 2: Basic service delivery on pages x to x
- Municipal entity: KPA 3: Service delivery and infrastructure development on pages x to x.

30. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

31. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned key performance areas. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

32. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

33. The material findings in respect of the selected key performance areas are as follows:

### **Key performance area 2: Basic service delivery**

#### **Usefulness of reported performance information**

34. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 93% of the reported objectives, 73% of the reported indicators and 77% of the reported targets were not consistent with those in the approved service delivery budget implementation plans (SDBIP). This was due to management not implementing the necessary monitoring controls to ensure that planned objectives and indicators per the SDBIP are compared to the planned objectives and indicators per the annual performance report to ensure that they agree. Furthermore, management did not review performance reports regularly as required.

35. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 70% of the targets were not specific.
36. Performance targets should be measurable as required by the FMPPI. I could not measure the required performance for 92% of the targets.
37. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 63% of the targets were not time bound.
38. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 70% of the indicators were not well defined.
39. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 82% of the indicators were not verifiable.

This was because performance reports were not prepared and reviewed as regularly as required to ensure that the planned targets for each performance indicator are included in the annual performance report. Furthermore, implemented policies and procedures do not guide operations and compliance with the FMPPI.

### Reliability of reported performance information

40. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to implemented policies and procedures which do not guide operations, as well as limitations placed on the scope of my work due to the absence of a proper record management system.

## **Key performance area 3: Service delivery and infrastructure development**

### Usefulness of reported performance information

41. Section 121(4)(d) of the MFMA requires the service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported indicators were not consistent with those in the approved annual delivery plan. This was because performance targets and objectives in the service delivery agreement and annual delivery plan were not compared to performance targets in the annual performance report.
42. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance. A total of 100% (>20%) of the targets were not specific.
43. The FMPPI requires that performance targets should be measurable. I could not measure the required performance for 100% of the targets.

44. The FMPPI requires that the period or deadline for delivery of targets should be specified. A total of 100% of the targets were not time bound.
45. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
46. The FMPPI requires that processes and systems that produced the indicator should be verifiable. A total of 50% (>20%) of the indicators were not verifiable. The annual performance plan was not reviewed to ensure that performance indicators adhered to the requirements of the FMPPI. Furthermore, the entity did not have suitably qualified officials to oversee the development of performance targets.

### Reliability of reported performance information

47. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

### Additional matters

48. I draw attention to the following matters:

### Achievement of planned targets

49. Refer to the annual performance reports on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected key performance areas reported in paragraphs 34 to 47 of this report.

### Unaudited supplementary information

50. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

### Compliance with legislation

51. I performed procedures to obtain evidence that the parent municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set

out in the general notice issued in terms of the PAA, are as follows:

## **Strategic planning and performance management**

52. The annual performance report for the year under review did not include
  - an evaluation of the performance of each external service provider
  - a comparison of the performance with set targets and a comparison with the previous financial year
  - measures taken to improve performance, as required by section 46(1)(a), (b) and (c) of the MSA.
53. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring, measurement, review and reporting and how it is conducted, organised and managed, as required by section 38 of the MSA and regulation 7 of municipal planning and performance management regulation 7.

## **Financial statements, performance and annual reports**

54. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
55. An oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013-14 annual report was tabled, as required by section 129(1) of the MFMA.

## **Procurement and contract management**

56. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as the supporting records could not be provided.
57. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by supply chain management (SCM) regulation 17(a) and (c).
58. Quotations were accepted from prospective providers who do not appear on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
59. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

60. Bid specifications for procurement of goods and services through competitive bids were drafted in a biased manner that did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a).
61. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).
62. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
63. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
64. Contracts were awarded to and quotations were accepted from bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the preferential procurement regulations (PPR).
65. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
66. Thresholds for local content on designated sectors procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.
67. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
68. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
69. Contracts were awarded to and quotations were accepted from bidders based on preference points that were not allocated or calculated in accordance with the requirements of the PPPFA and its regulations.
70. Contracts were awarded to and quotations were accepted from bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA.
71. Contracts were awarded to and quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
72. Contracts were extended or modified without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
73. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.

74. Contracts were awarded to and quotations were accepted from providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
75. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
76. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
77. A list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM regulation 14(1)(a).

## **Human resource management and compensation**

78. Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of MSA.
79. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of MSA.
80. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
81. The competencies of senior managers were not assessed in a timely manner in order to identify and address gaps in competency levels as required by regulation 13 of the *Municipal regulations on minimum competency levels*.
82. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by regulation 14(2)(a) of the *Municipal regulations on minimum competency levels*.
83. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by regulation 14(2)(b) of the *Municipal regulations on minimum competency levels*.
84. The municipality did not develop and adopt appropriate policies and procedures to monitor, measure and evaluate performance of staff, in contravention of section 67(d) of the MSA.
85. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.

## **Expenditure management**

86. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
87. Payments were made from the municipality's bank account without the approval of the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.

88. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Revenue management**

89. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

90. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

## **Asset management**

91. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

92. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

## **Consequence management**

93. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

## **Internal control**

94. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

95. The leadership did not always take timeous and adequate action to address weaknesses in the finance and SCM directorate, which resulted in non-compliance with applicable legislation and gave rise to fruitless and wasteful and irregular expenditure. Integrity and ethical values were not adequate to prevent material irregular expenditure and to set the standard for sound corporate governance.

96. Consequence management was not effective as the council did not investigate instances of unauthorised, irregular, fruitless and wasteful expenditure to determine whether any person was liable for the expenditure as the council neglected to appoint a committee to investigate the expenditure.

97. Key management positions were vacant during the year under review. Management did not implement effective human resource management to ensure that competent and sufficiently skilled officials are appointed and that performance was monitored.
98. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident in the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report recurring in the current year.

## **Financial and performance management**

99. Management did not fulfil their oversight responsibility with regard to performance information because they did not regard it as a high priority. The municipal entity did not have any person specifically responsible for performance information. The lack of a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report also contributed to performance information that was not reliable and useful.
100. Although there was an improvement in the submission of financial information, certain expected information was unavailable and in some instances such difficulties constituted a scope limitation that led to a modification of the auditor's opinion.
101. Compliance with laws and regulations was not monitored on a regular basis and non-compliance was not addressed in a timely manner because management did not regard it as a high priority due to instability in key management positions.
102. The financial statements were subjected to material corrections resulting from the audit process, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting and weaknesses in the information systems of the municipality, mainly due to instability in key management positions.

## **Governance**

103. Although the governance structures made an effort to influence an improvement in the control environment of the local municipality, the impact was not adequate, mainly because recommendations made by the internal audit division and audit committee were not adequately implemented by the executive management.

## Other reports

### **Investigations**

104. During the 2013-14 financial year the Free State Department of Cooperative Governance and Traditional Affairs (CoGTA) requested an independent consulting firm to conduct an investigation into certain allegations, including but not limited to misconduct and instances of governance deviations which covered the period 1 November 2013 to 30 January 2014. The investigation was concluded and a report was submitted to CoGTA.

*Auditor - General*

Bloemfontein

9 December 2015



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*